

BENJAMIN D. LORELLO  
MANAGING DIRECTOR  
212-698-3602

## SMITH BARNEY

February 25, 1987

Mr. Richard M. Scrushy  
Chairman of the Board  
HEALTHSOUTH Rehabilitation Corporation  
Two Perimeter Park South  
Birmingham, Alabama 35243

Dear Richard:

We are very pleased to have this opportunity to discuss with you our ideas regarding a public offering of HEALTHSOUTH common stock or convertible debentures. We also look forward to bringing you further up to date on the significant capabilities of Smith Barney that would be applied to effecting such an offering as well as to servicing HEALTHSOUTH on an ongoing basis.

We have presented in this booklet two financing alternatives which HEALTHSOUTH should seriously consider undertaking.

These are:

1. Offering approximately \$25 million of common stock.
2. Offering \$25 million of convertible debentures at a 6 1/2% coupon and a 25% conversion premium.

We are highly confident that both issues would meet with substantial market demand and we look forward to discussing these and other ideas with you.

Best regards,



Managing Director - Health Care Group

SMITH BARNEY  
HARRIS UPHAM & CO. INC.  
1345 AVENUE OF THE AMERICAS  
NEW YORK, NEW YORK 10105

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# HEALTHSOUTH Rehabilitation Corporation

Discussion of Financing Alternatives

February 1987

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HEALTHSOUTH Rehabilitation Corporation  
Discussion of Financing Alternatives  
February 1987

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**TABLE OF CONTENTS**

Qualifications of Smith Barney	Tab 1
Analysis of Financing Alternatives	Tab 2
 <u>Exhibits</u>	
Curricula Vitae of Smith Barney Health Care Professionals	Tab 1
Common Stock Offerings Managed or Co-Managed by Smith Barney from 1980 to Present	Tab 2
Leading Managers of Convertible Offerings in 1987	Tab 3
1987 Convertible Debt Offerings	Tab 4
Smith Barney Sales Guide to Convertibles, January 1987	Tab 5
Analysis of Trading Activity and Price and Volume	Tab 6
Institutional Ownership	Tab 7
1986 Rankings of Analysts in the Health Care Industry	Tab 8
Health Care Research	Tab 9

HEA 413-1638  
Subj. to Rule 6(e)  
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SMITH BARNEY

HEALTHSOUTH Rehabilitation Corporation  
Discussion of Financing Alternatives  
February 1987

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QUALIFICATIONS OF SMITH BARNEY

We believe that Smith Barney is best qualified to provide HEALTHSOUTH with the capabilities required to achieve its near-term objective of effecting a successful public offering, including the ongoing investment banking expertise, research presence and over-the-counter trading support required to facilitate HEALTHSOUTH's future financing and acquisition plans. Our firm's particular strengths include the following:

Reputation For Quality And Excellence In Investment Banking

- o Smith Barney is a 114-year old major investment banking firm dedicated to quality and excellence. The firm's investment banking roots date back to its founding, and excellence in investment banking continues to be our primary focus.
- o Smith Barney's 150 corporate finance professionals possess significant capability in all areas of domestic and international investment banking. Beyond the traditional underwriting business, the firm is among the major factors in mergers and acquisitions, private placements, tax-exempt financing, real estate finance and tax-advantaged financing.
- o Smith Barney numbers among its long-standing investment banking clients some of the most well-established and well-respected companies in American industry, including clients such as Dow Chemical, Mead, TRW and Scott Paper.
- o With revenues of approximately \$1 billion and capital of more than \$300 million, Smith Barney has the critical mass to provide the full range of banking, trading, distribution and research capabilities to our clients. Yet we are not so large, as are so many of the financial supermarkets, as to dilute the importance of any one client to our organization.

Demonstrated Experience in Health Care Corporate Finance

- o Smith Barney possesses one of the strongest health care investment banking efforts in the nation. Smith Barney's Corporate Finance Health Care Group consists of six investment banking professionals who commit 100% of their time to serving the needs of our clients in the health care industry. The group works in close cooperation with our Health Care Research Group, which is regarded as one of the most influential on Wall Street.
- o Smith Barney has been highly active in the underwriting of initial public offerings for health care companies. During the last eighteen months Smith Barney was selected as a managing underwriter for the initial public offerings of Healthcare Services of America, Healthcare International, HealthVest, Health Management Associates, InSpeech, Forum Retirement Partners, and

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SMITH BARNEY

**HEALTHSOUTH Rehabilitation Corporation**  
**Discussion of Financing Alternatives**  
**February 1987**

American Health Properties. In addition, Smith Barney has brought public several other quality medical companies including Marion Labs, Collagen Corporation, Stryker and Amgen. As a result of these transactions and our thorough research coverage, the Smith Barney system is among Wall Street's best-educated regarding the health care industry. The fact that these transactions have been completed successfully during an exceptionally difficult period in the industry is testimony to Smith Barney's ability to achieve what most others can only promise.

- o Smith Barney considers itself to be one of the leading firms in the structuring and underwriting of health care real estate transactions. Our expertise spans the areas of real estate investment trusts, master limited partnerships and private limited partnership transactions. The Health Care Group has been at the forefront in the development and distribution of many of the largest health care real estate entities that have emerged over the last two years: HealthVest, Meditrust, Forum Retirement Partners, Universal Health Realty Income Trust and American Health Properties.
- o The Health Care Group offers HEALTHSOUTH a wide range of experience gained from the successful execution of a variety of other health care transactions including debt financings, merger and acquisition services, tax-exempt bonds, joint-venture financings and stock repurchase programs.

Health care clients for whom we have completed investment banking assignments include:

<u>Client</u>	<u>Transaction(s); size</u>
Advanced Genetic Sciences	• Initial public offering; \$13M
American Medical International	• Initial public offering of American Health Properties (real estate investment trust); \$200M
Amgen	• Initial public offering; \$42M • Secondary stock offering; \$25M • Sale of 8.7% interest to Kebo AB; \$6M
Collagen	• Initial public offering; \$14M • Secondary stock offering; \$24M
Dow Chemical	• Purchase of Seragen; \$9M • Sale of Bio-Science Enterprises to American Hospital Supply; \$120M
Dow Corning	• Sale of Sight Savers to Bausch & Lomb; \$7M

SMITH BARNEY

HEALTHSOUTH Rehabilitation Corporation  
 Discussion of Financing Alternatives  
 February 1987

Client	Transaction(s); size
Forum Group, Inc.	• Initial public offering of Forum Retirement Partners (master limited partnership); \$64M
Glenbeigh, Inc.	• Sale of nursing homes to Genesis Health Ventures and Hannover Healthcare; \$15M
Health Management Associates	• Initial public offering; \$15M • Subordinated debentures; \$20M • Convertible preferred stock; \$7M • Revolving credit/term loan facility; \$20M
Healthcare International	• Initial public offering; \$24M • Subordinated debentures; \$35M
Healthcare Services of America	• Initial public offering; \$28M
HealthVest	• Initial public offering (real estate investment trust sponsored by Healthcare International); \$117M • Secondary stock offering; \$100M*
Home Nutritional Support	• Sale to Healthdyne; \$20M
Hospital Corporation of America	• Common stock repurchase; \$350M
Humana	• Private placement of senior notes; \$13M • Private placement of senior notes; \$25M
InSpeech	• Initial public offering; \$43M
Kebo AB	• Purchase of 29.2% interest in Calmar; \$37M
Marion Labs	• Secondary stock offering; \$18M
Marsam Pharmaceuticals	• Initial public offering; \$10M*
The Mediplex Group	• Industrial development bonds; \$6M
Meditrust	• Secondary offering (real estate investment trust sponsored by The Mediplex Group, a subsidiary of Avon Products); \$138M

\*Transaction in progress

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**HEALTHSOUTH Rehabilitation Corporation**  
**Discussion of Financing Alternatives**  
**February 1987**

Client	Transaction(s); size
Mentor Corporation	<ul style="list-style-type: none"> <li>• Secondary stock offering; \$20M</li> <li>• Purchase of American Heyer-Schulte; \$15M</li> </ul>
Paramedical Specialties	<ul style="list-style-type: none"> <li>• Sale to Healthdyne; \$4M</li> </ul>
Patterson Dental	<ul style="list-style-type: none"> <li>• Secondary stock offering; \$2M</li> <li>• Senior notes; \$50M</li> </ul>
PDA, Inc.	<ul style="list-style-type: none"> <li>• Leveraged buyout of Patterson Dental; \$50M</li> </ul>
Perrigo	<ul style="list-style-type: none"> <li>• Sale to Grow Group; \$45M</li> </ul>
Pfizer	<ul style="list-style-type: none"> <li>• Secondary stock offerings; \$12M, \$19M and \$29M</li> </ul>
Pharmacia	<ul style="list-style-type: none"> <li>• Purchase of 20% interest in Electro-Nucleonics, Inc.; \$14M</li> <li>• Sale of U.S. diagnostics business to Electro-Nucleonics; \$9M</li> </ul>
Puritan-Bennett	<ul style="list-style-type: none"> <li>• Secondary stock offering; \$21M</li> <li>• Stock repurchase; \$15M</li> </ul>
G.D. Searle	<ul style="list-style-type: none"> <li>• Sale to Monsanto; \$2,800M</li> </ul>
Seragen	<ul style="list-style-type: none"> <li>• Sale to Nyegaard AS; \$7M</li> </ul>
Service Corporation International	<ul style="list-style-type: none"> <li>• Secondary stock offering; \$54M</li> </ul>
Sierra Foundation for Health	<ul style="list-style-type: none"> <li>• Tender of 57.5% interest in Americare Health Corp. to AHC Acquisition Corp.; \$70M</li> </ul>
Stryker	<ul style="list-style-type: none"> <li>• Initial public offering; \$12M</li> </ul>
Universal Health Services Universal Health Realty Income Trust	<ul style="list-style-type: none"> <li>• Exchange offer resulting in the formation of a real estate investment trust through the exchange of common stock and debentures of Universal Health Services for shares of Universal Health Realty Income Trust; \$122M</li> </ul>
ValleyLab	<ul style="list-style-type: none"> <li>• Secondary stock offering; \$7M</li> <li>• Sale to Pfizer; \$127M</li> </ul>

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HEALTHSOUTH Rehabilitation Corporation  
Discussion of Financing Alternatives  
February 1987

Balanced Distribution: Premier Institutional Equity Capability Combined with a Large National Retail Distribution System

- o Smith Barney is unique in that it possesses powerful institutional and powerful retail distribution capability. Virtually all the large "wirehouse" firms lack a strong and respected institutional effort and all the large "institutional" firms have no meaningful captive retail distribution capability. Smith Barney has the ability to sell an equity offering almost entirely to institutions, almost entirely to retail investors or to strike a balance between the two.
- o Smith Barney has been consistently ranked by institutions as one of the most powerful institutional equity firms on Wall Street. We have achieved our position by combining a superior sales force of more than 50 professionals, a leading research department and the commitment of capital to trade securities as a principal. Measured in terms of account penetration (500 major U.S. institutions and 1,500 second and third-tier institutions), number of blocks traded, order execution, institutional equity research and overall customer service, Smith Barney ranks consistently among the top firms in our industry and considers itself second to none in its overall institutional capability.
- o In the international institutional equity arena, Smith Barney is considered to be among the top three firms in overall service. Smith Barney's international sales force includes 20 senior equity salesmen located in London, Paris, Geneva, Zurich and Lugano and maintains contact with more than 500 accounts. Most of these 20 professionals have worked together for more than a decade, and this continuity, combined with the focus on working closely with the Research Department on U.S. investment opportunities, has resulted in long-standing relationships with most of the larger European institutional buyers of U.S. equities.
- o Our retail sales force numbers 2,000 account executives and operates from over 100 offices worldwide with significant presence in all major retail investor markets. Our retail system is focused on high net worth individuals and currently services approximately 600,000 active accounts.
- o Because of our unique balance, Smith Barney has consistently effected an extremely well-balanced distribution of its clients' equity securities. During the past 3 years, for all common stock offerings in which Smith Barney acted as lead manager, our firm sold an average of 50% of such offerings to institutions and 50% to retail investors. Smith Barney's retail and institutional sales forces played the critical role in achieving this balance. On average, our firm sold over 50% of each issue we managed.
- o Because Smith Barney has substantial captive distribution capability, we can exercise the control necessary to achieve the desired retail/institutional mix. This capability is not available to a managing underwriter with limited or imbalanced (retail or institutional) distribution, who must rely heavily on the sales forces of syndicate members which are far outside its immediate control.

SMITH BARNEY

HEALTHSOUTH Rehabilitation Corporation  
Discussion of Financing Alternatives  
February 1987

Research: One of the Premier Health Care Research Groups on Wall Street

- o In public and private surveys among the nation's institutional investors (i.e., Greenwich Research and Institutional Investor), Smith Barney consistently ranks among the most highly respected and highest quality sources of fundamental research in our business. Smith Barney was a primary developer of in-depth research for institutions in the early 1950's, and our commitment to research has not diminished at any time throughout years of change in the securities industry.
- o Smith Barney possesses one of the most highly influential health care research efforts on Wall Street, with five fundamental analysts covering all major sectors of health care. In the 1985 Institutional Investor ranking, Smith Barney was the only firm to have its research analysts top-ranked in all three sectors of health care: hospital management, hospital supply and drugs. John Hindelong, who has long been acknowledged as the leading health services analyst on Wall Street, has been chosen as an Institutional Investor "All-American" research analyst in hospital management for each of the last eight years, while Joe France received recognition as both an All-American in hospital supply and a runner-up in hospital management in 1985. Our commitment to quality health care research is further complemented by the fact that our Research Director, Larry Smith, was formerly our Pharmaceutical Analyst and nationally recognized in that industry.

Research Analyst

Industry Segments

John Hindelong	Hospital Management
Joseph France	Specialty Health Care & Medical Products
Rae Alperstein	Hospital Management
Richard Stover	Pharmaceuticals & Life Sciences
Adele Haley	Pharmaceuticals & Life Sciences

- o Smith Barney's policy is to provide ongoing research coverage to all of its investment banking clients, this coverage taking the form of a major report every 12 months and, at a minimum, 4 quarterly research reports. As is the case with all our research, these reports are distributed to our entire retail and institutional sales forces and through them to potentially over 2,500 institutional accounts and more than 600,000 active retail accounts.
- o As well as publishing research, Smith Barney, through the Research Department, will sponsor meetings every six to nine months between the management of HEALTHSOUTH and specific institutions who are existing shareholders or potential buyers of the Company's securities. An active relationship with institutions, coupled with consistent performance, will ensure the demand necessary to achieve a fully-valued stock price and prepare the market for new issues. In addition, Smith Barney sponsors a major health care services seminar each year. In 1986, 75 institutions attended the Smith Barney conference to hear presentations from 17 of the leading hospital, nursing home, alternative care and specialty health care services companies in the United States.

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HEALTHSOUTH Rehabilitation Corporation  
 Discussion of Financing Alternatives  
 February 1987

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**Greenwich Research Associates' Rankings Of Wall Street Firms In Research**

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Firm	Rank			
	1986	1985	1984	1983
Merrill Lynch	1	1	1	1
Goldman Sachs	2	2	2	2
Kidder Peabody	3	3	3	3
First Boston	4	6	8	8
Morgan Stanley	5	4	4	3
<b>SMITH BARNEY, HARRIS UPHAM</b>	<b>6</b>	<b>5</b>	<b>5</b>	<b>5</b>
Salomon Brothers	7	10	10	10
PaineWebber	8	7	6	6
Donaldson, Lufkin & Jenrette	9	8	9	9
Drexel Burnham Lambert	9	11	10	11
Dean Witter Reynolds	11	9	7	7
C. J. Lawrence	12	12	12	12
Prudential-Bache Securities	13	13	13	21
Shearson Lehman Brothers	14	14	18	18
Wertheim	15	17	16	15
Bear Stearns	16	15	14	15
E. F. Hutton	17	16	20	14
Oppenheimer	18	18	19	13
Cowen	19	18	14	18
Sanford C. Bernstein	20	20	23	25

**Over-the-Counter Equity Trading: Committing More Capital Per Issue Than Any Other Firm**

- o It is imperative that the managing underwriter have significant over-the-counter trading expertise to function as a principal market maker in a client's stock. This is especially important during the first few days after an offering when it is not unusual for a substantial portion of the issue to trade and the need to effect an orderly market is critical. On an ongoing basis this trading expertise is critical in order to maintain a liquid, stable market in which long-term investors would be attracted to participate.
- o Smith Barney is one of the most powerful equity trading firms on Wall Street. As measured by the volume of listed and over-the-counter block trades (10,000 shares or more), by quality of execution and by overall service, institutions consistently rank Smith Barney among the top firms in our industry. Smith Barney's ability to purchase, as principal, sizeable blocks of stock and distribute them through our captive retail distribution system or to institutional investors acts as a major stabilizing force in the aftermarket.
- o Smith Barney commits to being one of the major trading factors in each of our clients' stocks and our clients have discovered that we often dominate the trading volume in their stock. Smith Barney applies a "rifle shot" rather than a "shotgun" approach to over-the-counter trading. That is, rather than trade every issue, we focus on a more selective universe of approximately 350 issues where we can be one of the principal market makers, if not the

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 Subj. to Rule 6(e)  
 Confidentiality

SMITH BARNEY

**HEALTHSOUTH Rehabilitation Corporation**  
**Discussion of Financing Alternatives**  
**February 1987**

principal market maker, in the stock. On this basis, we commit more capital per issue traded than any of our competitors. It is not unusual for us to trade 30-50% of the volume in clients' stocks, even though there may be as many as 10 to 15 market makers trading the stock.

**Greenwich Research Associates' Rankings Of Wall Street Firms In Execution**

Firm	Rank			
	1986	1985	1984	1983
Goldman Sachs	1	1	1	1
Merrill Lynch	1	2	2	1
Morgan Stanley	3	3	3	3
Salomon Brothers	4	6	6	4
First Boston	5	7	8	9
Kidder Peabody	6	3	5	5
<b>SMITH BARNEY, HARRIS UPHAM</b>	<b>7</b>	<b>5</b>	<b>4</b>	<b>6</b>
PaineWebber	8	8	7	7
Donaldson, Lufkin & Jenrette	9	10	10	10
Drexel Burnham Lambert	10	13	12	12
Shearson Lehman Brothers	11	11	16	16
Dean Witter Reynolds	12	9	9	8
Prudential-Bache Securities	13	14	13	21
Bear Stearns	14	12	11	11
E. F. Hutton	15	15	15	13
Jefferies	16	16	18	16
Wertheim	17	17	17	16
C. J. Lawrence	18	18	18	19
Oppenheimer	19	18	20	15
L. F. Rothschild, Unterberg, Towbin	20	20	23	23

**Investment Banking Commitment: Significant Capability In All Areas Of Corporate Finance**

Smith Barney has strong capabilities at each stage of the financing cycle of a growth company. The following sections describe the ways in which Smith Barney will bring its capabilities to bear on some of the specific needs which can be envisioned for HEALTHSOUTH.

- o **Common Stock Offerings:** Smith Barney has always been among the leading firms managing common stock offerings, our experience spanning a broad range of quality health care, technology and industrial companies. In 1986, Smith Barney managed 44 common stock offerings during the year, including such successful offerings as:

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SMITH BARNEY

HEALTHSOUTH Rehabilitation Corporation  
Discussion of Financing Alternatives  
February 1987

- 
- InSpeech
  - Worlds of Wonder
  - Informix
  - Toll Brothers
  - HealthVest
  - North Side Savings Bank
  - Texas Air
  - Ashton-Tate
  - KLM Airlines

- o **Convertible Securities:** A natural extension of our capabilities in common stock financings is our presence in the area of convertible debt and convertible preferred financing. Thus far in 1987, Smith Barney ranks as the leading manager of convertible debt, having lead-managed three issues totaling \$750 million. In the past five years, Smith Barney has managed more than \$2.3 billion of convertible securities for over 35 clients and consistently ranks among the leading firms in managing convertible issues. Because convertible securities are equity-related, we, unlike most other firms, integrate a strong research and trading emphasis into our marketing of convertibles. Clients for whom we have recently managed convertible offerings include:

- Masco Corporation
- Masco Industries
- Prime Computer
- Texas Air
- Fremont General
- Crossland Savings
- Vestron
- Recognition Equipment
- American Savings Bank
- Fruehauf
- Apache

- o **Real Estate Financing:** Smith Barney has long-standing expertise in the structuring of sale-leaseback arrangements, real estate investment trusts (REITs) and master limited partnerships (MLPs). We believe that these forms of off-balance sheet financing are very attractive as companies and their shareholders realize that outright ownership of real assets is not necessarily the most effective allocation of capital. Our public offerings of REIT and MLP issues have done extremely well in the aftermarket, and our salesmen and their clientele continue to express a strong interest in seeing more products of this kind. In the last 12 months, Smith Barney managed REIT and MLP offerings for the following companies:

- American Health Properties
- Forum Retirement Partners
- Universal Health Realty Income Trust
- Prime Motor Inns
- Boston Celtics
- Cal Fed

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Subj. to Rule 6(e)  
Confidentiality

SMITH BARNEY

HEALTHSOUTH Rehabilitation Corporation  
 Discussion of Financing Alternatives  
 February 1987

- 
- La Quinta Motor Inns
  - Airlease
  - Meditrust
  - UDC-Universal Development
  - Harris-Teeter Properties
  - HealthVest
  - Burger King

Smith Barney is also one of the largest marketers of privately-placed real estate investments in the United States, having sold approximately \$700 million of equity product in the last two and one-half years. Of particular note is our financing for Marriott Corporation. During the last 2 years we have placed through our private retail system 4 offerings totalling \$275 million in equity to finance Marriott hotel assets.

- o **Debt Securities:** Smith Barney's strength in the negotiated debt market is often overshadowed by our equity capability. In fact, as a lead manager, Smith Barney has consistently ranked in the top tier of investment banks for debt offerings over the past five years. We have managed more than \$13 billion of debt during that period for over 150 clients including recent offerings for:

- TRW
- Scott Paper
- Dow Chemical
- Chrysler (5 issues totalling \$1.6 billion)
- Masco
- General Electric
- Great Northern Nekoosa
- Marriott
- Southern California Edison
- Kingdom of Denmark

In addition, Smith Barney has been actively sponsoring its lower-rated clients in the debt markets for many years. Our approach to the high yield market integrates research and trading with our well-known strength in institutional sales. We have managed numerous debt issues for companies rated double B or lower. In the past 15 months we have managed the following highly successful issues of subordinated debt:

- Healthcare International
- Greenman Brothers
- Grow Group
- Texas Air
- Murray Savings
- Dart Drug
- Health Management Associates
- UDC - Universal Development
- Kerr Glass
- Carrols Corporation

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**SMITH BARNEY**

**HEALTHSOUTH Rehabilitation Corporation**  
Discussion of Financing Alternatives  
February 1987

- o **Merger & Acquisition Services:** Smith Barney has made a dramatic move in recent years to become one of the strongest M & A efforts on Wall Street. During the last five years, the Firm has completed over 120 transactions with an aggregate value exceeding \$17 billion. In 1986 alone, our staff of twenty-two merger and acquisition professionals completed 34 transactions valued at approximately \$3.5 billion. Our work for clients such as Imperial Chemical Industries (ICI), TRW, Scott Paper and The Williams Companies has been evenly divided between buy and sell assignments. We have also completed 11 leveraged buy-outs in the past two years. Our work in the health care industry has been notably successful for our clients, particularly PDA's \$50 million leveraged buyout of Patterson Dental, the \$127 million sale of ValleyLab to Pfizer, Dow Chemical's \$120 million divestiture of Bio-Science Enterprises to American Hospital Supply, the \$45 million sale of Perrigo Company to Grow Group, and Sierra Foundation for Health's \$70 million tender of its 57.5% interest in Americare Health Corp. to AHC Acquisition Corp.
- o **Private Placements:** This area has been one of the fastest growing of Smith Barney's investment banking services with the firm currently ranked in the top tier in private placement statistics. In the last two years alone, we have placed more than \$3 billion of equity and debt securities with institutional investors. These transactions have been executed for clients such as Humana, McDermott, The Williams Companies and Fairchild Industries. One notable recent transaction was the placement of \$1.3 billion of secured notes for International Harvester Credit Corp.
- o **Corporate Tax-Exempt Financing:** In the last three years, Smith Barney underwrote more than \$3 billion of tax-exempt debt for its taxable corporate clients. We have developed and underwritten \$6.7 billion of what is widely regarded to be the most innovative security in this market, the Adjustable Tender Security, so unique that we were granted a service mark on its name. We are also financing specialty hospitals and nursing homes with tax-exempt structures.

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2

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HEALTHSOUTH Rehabilitation Corporation  
 Discussion of Financing Alternatives  
 February 1987

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**ANALYSIS OF FINANCING ALTERNATIVES**

**Common Stock Offering**

Shares Issued:	2,200,000 shares sold by Company
Price to Public:	\$12 1/8
Issue Size:	\$26,675,000
Underwriter's Discount:	5.00-5.50%
Net Proceeds:	\$24,907,875-25,041,250

**Convertible Debentures Offering**

Principal Amount:	\$25,000,000
Interest Rate:	6.50%
Offering Price:	100%
Conversion Premium:	25% (\$15.16 based on current price)
Underwriter's Discount:	3.0%
Net Proceeds:	\$23,950,000
Maturity:	25 years
Interest Payable:	Semi-annually
Form of Debentures:	Fully registered in denominations of \$1,000 and any multiple thereof.
Optional Redemption:	Commencing two years after the date of issuance (or sooner if the average closing stock price is 150% of the conversion price for 20 of 30 consecutive days), the Debentures may be redeemed at the option of the Company as a whole or in part at any time on at least 16 days' notice and no more than 60 days' notice at a redemption price equal to par plus the coupon in the first year and scaled to par by the end of the tenth year.

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 Confidentiality

SMITH BARNEY

HEALTHSOUTH Rehabilitation Corporation  
Discussion of Financing Alternatives  
February 1987

Mandatory Sinking Fund:	<p>Commencing after ten years (1997) to retire 5% of the principal amount of Debentures each year at 100% of their principal amount, plus accrued interest to the date fixed for redemption.</p> <p>Percent retired prior to maturity - 75% minimum.</p> <p>Average Life - 19 years.</p>
Limitation on Refunding:	<p>The Debentures may not be redeemed prior to five years after issuance, directly or indirectly from or in anticipation of borrowed funds having a lower interest cost than the coupon on the Debentures.</p>
Conversion Rights:	<p>Holders of the Debentures have the right at their option, at any time on or before maturity, unless previously redeemed, to convert the principal amount of such Debentures into Common Stock of the Company.</p>
Anti-Dilution Provision:	<p>The conversion price will be adjusted in the event of:</p> <ul style="list-style-type: none"><li>(a) payment of a cash or stock dividend or other distribution of Common Stock;</li><li>(b) subdivision of the Company's outstanding shares into a greater number of shares or a combination of the Company's shares into a smaller number of shares; and</li><li>(c) effective issuance of shares by reclassification of its shares of Common Stock; and</li><li>(d) issuance of Common Stock or rights or warrants to purchase Common Stock at a price less than the equivalent conversion price set forth in these terms.</li></ul>

SMITH BARNEY

HEALTHSOUTH Rehabilitation Corporation  
Discussion of Financing Alternatives  
February 1987

<b>Subordination of Debentures:</b>	The payment of the principal of, premium, if any, interest and sinking fund on the Debentures will be subordinated in right of payment in full to all senior indebtedness of the Company whether outstanding on the date of the Indenture or thereafter created, incurred, assumed or guaranteed.
<b>Negative Covenants:</b>	Dividend restriction only.

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# SMITH BARNEY

HEALTHSOUTH REHABILITATION CORPORATION  
Discussion of Financing Alternatives  
February 1987

## PRO FORMA ANALYSIS

(Dollars in thousands except per share amounts)

Pro forma calculations assume an offering date of June 30, 1987, i.e. the offering will have effect for one-half of 1987.

	Current(1)		Pro Forma for Issuance of 2200000 Shares of Common Stock at \$12.13 Per Share	
Short-Term Debt(2)	\$2,600		\$0	
Capitalization:				
Senior Long-Term Debt(3)	\$13,000	35.3%	\$5,076	9.4%
Sub. Long-Term Debt	0	0.0%	0	0.0%
Total Long-Term Debt	13,000	35.3%	5,076	9.4%
Stockholders' Equity	23,864	64.7%	48,905	90.6%
Total Capitalization	\$36,864	100.0%	\$53,981	100.0%
Senior LTD as a % of Common Equity	54%		10%	
LTD as a % of Common Equity	54%		10%	
Total Debt as a % of Common Equity	65%		10%	
Interest Coverages:	S-X	TD	S-X	TD
1987 Estimate(4)	3.6 x	4.4 x	5.2 x	7.3 x
Earnings Impact:(5)	87 E		87 E	
Earnings Before Taxes (As Estimated)	\$5,277		\$5,277	
Additional Interest Expense	-		-	
Interest Savings on Retired Debt	-		396	
Return on Excess Proceeds(6)	-		665	
Amortization of Issuance Expenses	-		-	
Adjusted Earnings Before Taxes	5,277		6,339	
Pro Forma Income Tax	2,111		2,536	
Pro Forma Net Income	\$3,166		\$3,803	
Impact on Shares Outstanding:				
Shares Outstanding	7,916		7,916	
New Shares Issued	-		2,200	
Pro Forma Shares Outstanding	7,916		10,116	
Average Shares Outstanding 1987	7,916		9,016	
% Increase in Shares	-		28%	
Impact on Earnings Per Share:				
EPS (As Estimated)	\$0.40		\$0.40	
Pro Forma EPS	\$0.40		\$0.42	
Change - \$	-		0.02	
Change - %	-		5.0%	

### Notes:

- (1) Estimates using prospectus.
- (2) Includes current maturities of long-term debt.
- (3) Includes capital lease obligations.
- (4) Calculated using current estimate of earnings for 1987.
- (5) All adjustments weighted assuming effects of offering would impact earnings for six months.
- (6) Assumes investment at 3-month T-Bill rate of 5.5%.

HEA 413-1655  
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## SMITH BARNEY

HEALTHSOUTH REHABILITATION CORPORATION  
Discussion of Financing Alternatives  
February 1987

## PRO FORMA ANALYSIS

(Dollars in thousands except per share amounts)

Pro forma calculations assume an offering date of June 30, 1987, i.e. the offering will have effect for one-half of 1987.

	Current(1)		Pro Forma for Issuance of \$250,000,000 of 6.50% Convertible Subordinated Debentures			
			Before Conversion		After Conversion	
Short-Term Debt(2)	\$2,600		\$0		\$0	
Capitalization:						
Senior Long-Term Debt(3)	\$13,000	35.3%	\$5,076	9.4%	\$5,076	9.4%
Sub. Long-Term Debt	0	0.0%	25,000	46.3%	0	0.0%
Total Long-Term Debt	13,000	35.3%	30,076	55.8%	5,076	9.4%
Stockholders' Equity	23,864	64.7%	23,864	44.2%	48,864	90.6%
Total Capitalization	\$36,864	100.0%	\$53,940	100.0%	\$53,940	100.0%
Senior LTD as a % of Common Equity	54%		21%		10%	
LTD as a % of Common Equity	54%		126%		10%	
Total Debt as a % of Common Equity	65%		126%		10%	
Interest Coverages:	S-X	TD	S-X	TD	S-X	TD
1987 Estimate(4)	3.6 x	4.4 x	3.4 x	4.0 x	5.0 x	6.9 x
Earnings Impact:(5)	87 E		87 E		87 E	
Earnings Before Taxes (As Estimated)	\$5,277		\$5,277		\$5,277	
Additional Interest Expense	-		(813)		-	
Interest Savings on Retired Debt	-		396		396	
Return on Excess Proceeds(6)	-		615		615	
Amortization of Issuance Expenses	-		(6)		(300)(7)	
Adjusted Earnings Before Taxes	5,277		5,470		5,989	
Pro Forma Income Tax	2,111		2,188		2,396	
Pro Forma Net Income	\$3,166		\$3,282		\$3,593	
Impact on Shares Outstanding:						
Shares Outstanding	7,916		7,916		7,916	
New Shares Issued	-		-		1,649	
Pro Forma Shares Outstanding	7,916		7,916		9,565	
Average Shares Outstanding 1987	7,916		7,916		8,741	
% Increase in Shares	-		-		20.8%	
Impact on Earnings Per Share:						
EPS (As Estimated)	\$0.40		\$0.40		\$0.40	
Pro Forma EPS	\$0.40		\$0.41		\$0.41	
Change - \$	-		0.01		0.01	
Change - %	-		2.5%		2.5%	

## Notes:

- (1) Estimates using prospectus.
- (2) Includes current maturities of long-term debt.
- (3) Includes capital lease obligations.
- (4) Calculated using current estimate of earnings for 1987.
- (5) All adjustments weighted assuming effects of offering would impact earnings for six months.
- (6) Assumes investment at 3-month T-Bill rate of 5.5%.
- (7) Assumes all issuance expenses are expensed upon conversion.

HEA 413-1656  
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**EXHIBIT**

**HEA 413-1657**  
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**SMITH BARNEY**

**HEALTHSOUTH Rehabilitation Corporation**  
Discussion of Financing Alternatives  
February 1987

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**HEALTH CARE SPECIALISTS**

**Benjamin D. Lorello, Managing Director**

Mr. Lorello is the Director of Smith Barney's health care corporate finance effort. Prior to joining Smith Barney in April 1985, Mr. Lorello was a Senior Vice President at Shearson Lehman Brothers, where he was one of three senior members in Shearson Lehman's health care group. Mr. Lorello joined the corporate finance department of a predecessor firm of Shearson Lehman Brothers in 1977 and has specialized in health care investment banking since 1982. He holds an MBA from the Massachusetts Institute of Technology (1977), where he graduated first in his class and is a summa cum laude graduate of the University of Rhode Island (1975).

**Thomas W. Hearne III, Vice President**

Mr. Hearne joined the Smith Barney Health Care Group in 1986. Prior to joining Smith Barney, Mr. Hearne was a Vice President at E.F. Hutton & Company, where he was a generalist. Mr. Hearne graduated magna cum laude from Colby College with a degree in Mathematics in 1977.

**James M. Hesburgh, Associate**

Mr. Hesburgh joined the Smith Barney Health Care Group in 1986. Prior to joining Smith Barney, Mr. Hesburgh was an Associate at PaineWebber, Inc., where he was a generalist. Mr. Hesburgh received his MBA from UCLA in 1984 and a degree in Finance from the University of Notre Dame in 1980.

**Bruce C. Cozadd, Analyst**

Mr. Cozadd joined the Health Care Group in 1985 after graduating cum laude from Yale University with a degree in Economics and Molecular Biophysics and Biochemistry.

**Erik D. Wiberg, Analyst**

Mr. Wiberg joined the Health Care Group after graduating from the University of Pennsylvania in 1985 with a degree in Finance and Accounting and a degree in Computer Science Engineering.

**Mary P. McDaniel, Analyst**

Ms. McDaniel joined the Health Care Group in 1987. Prior to joining Smith Barney, Ms. McDaniel worked in the Research Department at Salomon Brothers Inc. Ms. McDaniel is a graduate of Harvard University.

**HEA 413-1659**  
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## SMITH BARNEY

### HEALTHSOUTH Rehabilitation Corporation Discussion of Financing Alternatives February 1987

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#### **John F. Hindelong, Managing Director**

Mr. Hindelong joined Smith Barney in May 1985 as the firm's senior hospital management analyst. Mr. Hindelong has researched the health services industry since 1975 and has been ranked as the number one, two or three analyst covering the industry by Institutional Investor magazine for the last decade. Prior to joining Smith Barney, he served as Research Director at Dillon, Read & Co. and Warburg Paribas Becker, where he was also responsible for research of the hospital management industry. Mr. Hindelong earned his MBA from Fairleigh Dickinson and his B.S. in Accounting from St. Peter's College. Mr. Hindelong is a Certified Public Accountant and a past President of the Medical Analysts of New York. Mr. Hindelong is closely affiliated with many programs associated with the hospital management industry and is an active spokesman for the industry.

#### **Joseph D. France, Managing Director**

Mr. France joined Smith Barney in 1982 and is the firm's senior analyst responsible for the medical products and specialty health care segments of the industry. Mr. France is a nationally ranked analyst in both the medical products and healthcare services segments. Mr. France earned a B.S. in Pharmacy and an MBA from the University of Kansas. Prior to joining Smith Barney, Mr. France was a research analyst at the First National Bank of Chicago, where he followed the healthcare industry.

#### **Rae Alperstein, Senior Analyst**

Ms. Alperstein joined Smith Barney in 1986 as a hospital management analyst. Prior to joining Smith Barney, Ms. Alperstein worked as a relationship manager for approximately four years in the Citibank Healthcare Financing Group, where she provided financing through loans and letters of credit for investor-owned and non-profit health services companies owning acute care, psychiatric and substance abuse treatment facilities, and nursing homes. Ms. Alperstein received her Masters degree in Management from Yale University and holds a B.A. in Foreign Languages from the University of Maryland.

#### **Richard R. Stover, Managing Director**

Mr. Stover acts as Smith Barney's senior pharmaceutical industry analyst. Mr. Stover has spent nearly 14 years as an analyst specializing in the health care industry, principally pharmaceuticals. Mr. Stover received his B.A. in Economics from the University of Pennsylvania and did his graduate work in business administration at N.Y.U. Mr. Stover is a member of the New York Security Analysts and the North American Society for Corporate Planning.

SMITH BARNEY

HEALTHSOUTH Rehabilitation Corporation  
Discussion of Financing Alternatives  
February 1987

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**Adele M. Haley, Vice President**

Ms. Haley is responsible for coverage of the pharmaceutical industry. Ms. Haley has over six years' experience on Wall Street, having spent the last four covering the pharmaceutical industry. Ms. Haley received a B.A. from Franklin and Marshall College, where she was elected Phi Beta Kappa, and obtained an M.A. from Bryn Mawr Graduate School.

**HEA 413-1661**  
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2

**HEA 413-1662**  
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Confidentiality

## SMITH BARNEY

HEALTHSOUTH Rehabilitation Corporation  
Discussion of Financing Alternatives  
February 1987

COMMON STOCK OFFERINGS MANAGED OR CO-MANAGED  
BY SMITH BARNEY FROM 1980 TO PRESENT

Offer Date	Smith Barney Lead Managed	IPO	Issuer	Industry Group	Amount Sold (including over-allotment)	Offer Price (adjusted for splits)
12-Feb-87	N	Y	American Health Properties, Inc.	Health Care	\$200,000,000	\$20.00
15-Jan-87	Y	N	Standard Pacific, L.P.	Service	58,400,000	28.00
09-Jan-87	N	Y	Crestmont Federal S&L	Savings & Loan	24,600,000	11.00
19-Dec-86	N	Y	Forum Retirement Partners, L.P.	Health Care	63,750,000	12.75
17-Dec-86	Y	Y	Prime Motor Inns L.P.	Service	80,000,000	20.00
12-Dec-86	Y	Y	Markel	Insurance	9,000,000	10.00
10-Dec-86	Y	Y	Lane Financial	Bank	16,900,000	13.00
04-Dec-86	Y	Y	Boston Celtics L.P.	Service	48,100,000	18.50
21-Nov-86	N	N	Centel	Phone(Utility)	65,200,000	57.00
20-Nov-86	N	Y	Cal Fed Income Partners L.P.	General Fin.	110,000,000	10.00
13-Nov-86	N	Y	Irwin Magnetic Systems	Manufacturing	18,900,000	8.00
06-Nov-86	Y	Y	Gainsco	Insurance	8,800,000	7.00
05-Nov-86	Y	Y	InSpeech	Health Care	43,000,000	17.00
17-Oct-86	N	Y	Inmac	Service	20,900,000	11.00
15-Oct-86	N	Y	La Quinta Motor Inns-L.P.	Service	79,500,000	20.00
03-Oct-86	N	Y	Airlease	Service	61,500,000	20.50
24-Sep-86	N	Y	Informix	Service	11,900,000	7.50
20-Aug-86	N	N	Meditrust	Health Care	138,000,000	17.33
08-Aug-86	Y	Y	Harris-Teeter Properties	General Fin.	24,900,000	10.00
30-Jul-86	Y	N	Conquest Exploration	Nat. Resources	14,900,000	4.65
24-Jul-86	Y	N	Puritan-Bennett	Health Care	21,100,000	21.00
23-Jul-86	Y	N	Shoney's South	Service	19,800,000	15.25
18-Jul-86	Y	Y	Nichols-Homeshield	Manufacturing	20,200,000	13.00
11-Jul-86	N	Y	Richmond Hill Savings	Savings & Loan	39,200,000	14.50
11-Jul-86	Y	Y	Tipton Centers	Retail	18,000,000	15.00
08-Jul-86	N	Y	Toll Brothers	Service	37,500,000	12.50
20-Jun-86	Y	Y	Health Management Associates	Health Care	15,000,000	10.00
20-Jun-86	Y	Y	Worlds of Wonder	Manufacturing	124,200,000	18.00
05-Jun-86	Y	Y	J. Baker	Retail	43,400,000	14.00
04-Jun-86	Y	N	UDC-Universal Development	Service	26,300,000	35.13
29-May-86	Y	Y	HealthVest	Health Care	108,500,000	20.00
22-May-86	Y	Y	Bear Automotive Service	Manufacturing	32,700,000	13.25
19-May-86	N	N	Texas Air	Transportation	148,300,000	32.25
16-May-86	Y	N	Browning-Ferris Industries	Service	106,700,000	35.00
09-May-86	N	Y	Bay View Federal Savings	Savings & Loan	52,700,000	13.00
07-May-86	Y	N	Guaranty National	Insurance	21,500,000	8.13
15-Apr-86	N	N	Intertrans	Transportation	16,900,000	16.13
08-Apr-86	N	N	Ashton-Tate	Service	32,000,000	21.38
08-Apr-86	N	Y	North Side Savings Bank	Savings & Loan	22,100,000	13.50
01-Apr-86	Y	Y	First Federal Savings-Arkansas	Savings & Loan	12,800,000	10.00

HEA 413-1663  
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Confidentiality

SMITH BARNEY

HEALTHSOUTH Rehabilitation Corporation  
 Discussion of Financing Alternatives  
 February 1987

COMMON STOCK OFFERINGS MANAGED OR CO-MANAGED  
 BY SMITH BARNEY FROM 1980 TO PRESENT

Offer Date	Smith Barney Lead Managed	IPO	Issuer	Industry Group	Amount Sold (including over-allotment)	Offer Price (adjusted for splits)
26-Mar-86	N	N	KLM Royal Dutch Airlines	Transportation	307,500,000	20.50
10-Mar-86	Y	N	XL/Datacomp	Service	21,300,000	21.25
20-Feb-86	Y	N	Allegheny Beverage	Service	58,000,000	25.50
20-Feb-86	N	Y	Burger King Investors Master	Service	92,700,000	20.00
06-Feb-86	Y	N	Fluorocarbon	Manufacturing	5,200,000	15.63
30-Jan-86	Y	Y	St. Joe Gold	Nat. Resources	39,000,000	13.00
24-Jan-86	Y	Y	IFR Systems	Manufacturing	11,200,000	11.25
10-Jan-86	Y	N	Anitec Image Technology	Manufacturing	45,900,000	12.67
20-Dec-85	Y	Y	Centennial Real Estate	General Fin.	16,900,000	10.00
13-Dec-85	Y	N	Ferrofluidics	Manufacturing	12,000,000	3.75
11-Dec-85	Y	Y	Pacific Nuclear Systems	Service	15,200,000	9.50
05-Dec-85	Y	Y	Wholesale Club	Retail	14,000,000	7.00
02-Dec-85	Y	N	Berkshire Gas	Gas	3,400,000	11.25
20-Nov-85	N	Y	American Savings Bank	Savings & Loan	69,100,000	12.50
20-Nov-85	N	Y	Mercury General	Insurance	120,200,000	19.00
25-Oct-85	Y	Y	Healthcare International	Health Care	20,900,000	9.50
23-Oct-85	N	Y	CrossLand Savings, FSB	Savings & Loan	112,500,000	9.00
08-Oct-85	N	Y	Vestron	Service	70,200,000	13.00
24-Sep-85	Y	Y	Open Air Markets	Retail	16,400,000	11.00
22-Aug-85	Y	N	Apache Petroleum	Nat. Resources	135,000,000	18.75
16-Aug-85	N	N	Texas Air	Transportation	55,000,000	19.13
16-Aug-85	Y	N	UDC-Universal Development	Service	26,700,000	27.00
15-Aug-85	Y	Y	Healthcare Services of America	Health Care	24,000,000	12.00
18-Jul-85	N	N	Pogo Producing	Nat. Resources	70,300,000	14.63
26-Jun-85	N	Y	Apple Bank for Savings	Savings & Loan	47,900,000	12.75
07-Jun-85	Y	N	Mentor	Health Care	17,300,000	18.25
23-May-85	Y	Y	Anitec Image Technology	Manufacturing	26,400,000	7.33
21-May-85	Y	N	Republic Gypsum	Manufacturing	17,900,000	9.88
02-May-85	Y	N	Greenman Bros	Service	27,600,000	19.20
17-Apr-85	Y	N	Holiday Inns	Service	51,300,000	52.00
12-Apr-85	N	Y	Rainier Realty Investors	General Fin.	34,500,000	10.00
03-Apr-85	Y	N	Iomega	Manufacturing	16,400,000	10.00
21-Mar-85	N	Y	Travelers Realty Income	General Fin.	51,800,000	20.00
14-Mar-85	Y	Y	XL/Datacomp	Service	20,000,000	15.00
11-Feb-85	N	N	Decision Data Computer	Manufacturing	32,200,000	18.38
28-Nov-84	Y	Y	Nanometrics	Manufacturing	8,500,000	7.75
07-Nov-84	Y	N	Recognition Equipment	Manufacturing	23,200,000	13.25
26-Oct-84	Y	N	Mayflower	Transportation	13,700,000	14.00
25-Jun-84	Y	N	Alexander & Alexander Services	Insurance	14,100,000	19.00
05-Jun-84	Y	N	Ponderosa	Service	31,300,000	20.88

HEA 413-1664  
 Subj. to Rule 6(e)  
 Confidentiality

## SMITH BARNEY

HEALTHSOUTH Rehabilitation Corporation  
Discussion of Financing Alternatives  
February 1987

COMMON STOCK OFFERINGS MANAGED OR CO-MANAGED  
BY SMITH BARNEY FROM 1980 TO PRESENT

Offer Date	Smith Barney Lead Managed	IPO	Issuer	Industry Group	Amount Sold (including over-allotment)	Offer Price (adjusted for splits)
17-Apr-84	Y	N	Laidlaw Transportation	Service	22,800,000	3.04
28-Mar-84	Y	Y	Xidex Magnetics	Manufacturing	12,800,000	12.50
14-Mar-84	Y	N	Apache Petroleum	Nat. Resources	123,500,000	19.00
25-Jan-84	Y	Y	Homecrafters Warehouse	Retail	32,000,000	16.00
04-Jan-84	Y	N	UMC Industries	Manufacturing	4,900,000	16.38
06-Dec-83	Y	Y	Entre Computer Centers	Retail	16,800,000	12.00
06-Dec-83	Y	N	Mead	Manufacturing	46,200,000	42.00
06-Dec-83	N	Y	Supertex	Manufacturing	13,500,000	9.00
05-Dec-83	N	N	Iowa Electric Light & Power	Electric	17,000,000	17.00
26-Oct-83	N	Y	Universal Development	Service	10,000,000	10.00
05-Oct-83	Y	N	Masco	Manufacturing	7,900,000	16.50
29-Sep-83	N	N	Mead	Manufacturing	54,400,000	34.00
22-Sep-83	Y	Y	Advanced Genetic Sciences	Health Care	11,300,000	15.00
15-Sep-83	Y	N	New York Airlines	Transportation	23,100,000	9.25
14-Sep-83	Y	N	Bangor Hydro-Electric	Electric	12,800,000	14.25
14-Sep-83	N	N	Oshman's Sporting Goods	Retail	10,800,000	22.75
30-Aug-83	Y	N	CFS Continental	Service	4,400,000	22.08
30-Aug-83	Y	Y	Culp	Manufacturing	12,800,000	12.75
25-Aug-83	Y	N	Green Tree Acceptance	General Fin.	19,800,000	9.00
23-Aug-83	N	N	Mead	Manufacturing	4,200,000	32.75
23-Aug-83	N	N	Mead	Manufacturing	6,100,000	32.75
04-Aug-83	Y	N	Recognition Equipment	Manufacturing	16,600,000	13.25
29-Jul-83	N	Y	U. S. Capital	Service	20,900,000	13.50
22-Jul-83	N	N	Frontier Holdings	Transportation	28,500,000	18.45
20-Jul-83	Y	N	Holiday Inns	Service	58,200,000	53.88
08-Jul-83	N	N	Masonite	Manufacturing	37,700,000	50.25
29-Jun-83	N	N	Apache Petroleum	Nat. Resources	64,000,000	32.00
24-Jun-83	Y	N	Easco	Manufacturing	28,200,000	20.50
17-Jun-83	Y	Y	Amgen	Health Care	42,300,000	18.00
17-Jun-83	Y	N	Foremost of America	Insurance	65,600,000	33.67
15-Jun-83	N	N	Scovill	Manufacturing	46,000,000	28.75
02-Jun-83	Y	N	Collagen	Health Care	24,100,000	16.08
26-May-83	Y	N	Informatics General	Service	33,500,000	33.50
25-May-83	Y	N	Republic Airlines	Transportation	56,900,000	8.38
24-May-83	Y	N	Scott Paper	Manufacturing	84,400,000	22.50
11-May-83	Y	N	Mayflower	Transportation	17,000,000	9.44
04-May-83	Y	Y	Green Tree Acceptance	General Fin.	17,600,000	8.00
19-Apr-83	Y	N	Technicom International	Manufacturing	27,000,000	24.50
19-Apr-83	Y	N	Telesphere International	Service	31,500,000	15.75
13-Apr-83	Y	N	Masco	Manufacturing	63,800,000	16.56

HEA 413-1665  
Subj. to Rule 6(e)  
Confidentiality

SMITH BARNEY

HEALTHSOUTH Rehabilitation Corporation  
Discussion of Financing Alternatives  
February 1987

COMMON STOCK OFFERINGS MANAGED OR CO-MANAGED  
BY SMITH BARNEY FROM 1980 TO PRESENT

Offer Date	Smith Barney Lead Managed	IPO	Issuer	Industry Group	Amount Sold (including over-allotment)	Offer Price (adjusted for splits)
11-Apr-83	Y	N	Heald	Manufacturing	26,900,000	23.38
07-Apr-83	N	N	Browning-Ferris Industries	Service	49,700,000	19.13
03-Mar-83	Y	N	Instacom	Service	18,100,000	7.25
23-Feb-83	Y	N	Newport	Manufacturing	21,800,000	17.11
22-Feb-83	Y	N	Scovill	Manufacturing	6,300,000	24.25
10-Feb-83	N	N	Middle South Utilities	Electric	125,200,000	15.65
09-Feb-83	N	N	Seagate Technology	Manufacturing	74,600,000	12.44
08-Feb-83	N	N	Service Corporation Intl	Health Care	48,300,000	15.89
28-Jan-83	Y	N	TIE/Communications	Manufacturing	58,500,000	19.50
06-Jan-83	N	N	TransWorld	Transportation	77,000,000	18.67
15-Dec-82	Y	N	Masco	Manufacturing	12,100,000	6.41
29-Nov-82	N	N	Apache Petroleum	Nat. Resources	121,500,000	20.25
24-Nov-82	Y	N	Informatics General	Service	17,900,000	21.00
19-Nov-82	Y	N	Texas Air	Transportation	43,800,000	12.50
29-Oct-82	Y	N	Marion Laboratories	Health Care	17,800,000	11.13
05-Oct-82	Y	N	Ponderosa	Service	20,500,000	13.67
28-Sep-82	Y	N	American Electric Power	Electric	63,000,000	18.00
21-Sep-82	N	N	Atlantic City Electric	Electric	28,700,000	19.25
16-Sep-82	Y	N	Bangor Hydro-Electric	Electric	8,700,000	11.63
20-Jul-82	N	N	El Paso Electric	Electric	57,500,000	11.50
16-Jun-82	Y	N	Masco	Manufacturing	10,800,000	7.50
15-Jun-82	Y	N	TransWorld	Transportation	45,900,000	17.00
14-Jun-82	Y	N	Pfizer	Health Care	12,200,000	27.75
09-Jun-82	N	N	Gulf United	Insurance	13,800,000	17.50
25-May-82	Y	N	Telesphere International	Service	10,600,000	7.83
13-May-82	N	N	Middle South Utilities	Electric	143,000,000	14.30
10-Mar-82	Y	N	Masco	Manufacturing	11,900,000	7.28
24-Feb-82	Y	N	Pfizer	Health Care	19,300,000	27.19
10-Feb-82	Y	N	Greatwest Hospitals	Health Care	14,100,000	11.50
19-Nov-81	Y	N	Pfizer	Health Care	28,700,000	23.50
04-Nov-81	Y	Y	Instacom	Service	9,000,000	3.33
29-Oct-81	N	N	Middle South Utilities	Electric	63,800,000	12.75
23-Oct-81	Y	Y	Collagen	Health Care	13,700,000	8.67
22-Sep-81	Y	N	Bangor Hydro-Electric	Electric	5,200,000	10.38
05-Aug-81	Y	N	El Paso Electric	Electric	43,000,000	10.75
05-Aug-81	Y	Y	Geophysical Field Surveys	Nat. Resources	14,300,000	15.50
29-Jun-81	N	N	Northeast Utilities	Electric	78,700,000	8.75
25-Jun-81	Y	N	Floating Point Systems	Manufacturing	29,200,000	23.00
11-Jun-81	N	N	Allegheny Power System	Electric	96,700,000	16.13
09-Jun-81	N	N	Southern	Electric	127,000,000	11.55

HEA 413-1666  
Subj. to Rule 6(e)  
Confidentiality

SMITH BARNEY

HEALTHSOUTH Rehabilitation Corporation  
 Discussion of Financing Alternatives  
 February 1987

COMMON STOCK OFFERINGS MANAGED OR CO-MANAGED  
 BY SMITH BARNEY FROM 1980 TO PRESENT

Offer Date	Smith Barney Lead Managed	IPO	Issuer	Industry Group	Amount Sold (including over-allotment)	Offer Price (adjusted for splits)
19-May-81	N	N	Iowa Resources	Electric	20,300,000	10.13
12-May-81	Y	Y	IPL Systems	Manufacturing	18,200,000	13.00
23-Apr-81	N	N	Browning-Ferris Industries	Service	34,900,000	11.63
20-Feb-81	Y	Y	New York Airlines	Transportation	15,200,000	9.50
04-Feb-81	Y	N	ChemLawn	Service	12,800,000	11.33
21-Jan-81	Y	N	Van Dusen Air	Service	8,000,000	16.00
18-Dec-80	N	N	DEKALB AgResearch	Service	37,300,000	49.75
18-Dec-80	Y	N	ValleyLab	Health Care	6,600,000	16.50
12-Dec-80	N	N	Oak Industries	Service	27,400,000	21.06
10-Dec-80	Y	N	Bangor Hydro-Electric	Electric	2,500,000	10.13
20-Nov-80	Y	N	Western of North America	Nat. Resources	65,400,000	29.75
12-Nov-80	N	N	Southern	Electric	129,800,000	11.80
09-Jul-80	Y	N	Seneca Oil	Nat. Resources	11,400,000	11.38
02-Jul-80	Y	N	Petroleum Equipment Tools	Service	24,600,000	15.38
30-Jun-80	N	N	Central & South West	Electric	87,700,000	14.63
25-Jun-80	Y	N	Moran Energy	Nat. Resources	25,700,000	30.25
25-Jun-80	Y	N	Sullair	Manufacturing	9,600,000	8.25
01-May-80	Y	N	Crystal Oil	Manufacturing	17,600,000	12.50
29-Apr-80	N	N	Middle South Utilities	Electric	88,500,000	12.65
05-Mar-80	Y	N	McDermott	Service	126,500,000	31.63
16-Jan-80	N	N	Pacific Power & Light	Electric	56,300,000	18.75

HEA 413-1667  
 Subj. to Rule 6(e)  
 Confidentiality



6

**HEA 413-1668**  
Subj. to Rule 6(e)  
Confidentiality

SMITH BARNEY

HEALTHSOUTH Rehabilitation Corporation  
 Discussion of Financing Alternatives  
 February 1987

## LEADING MANAGERS OF CONVERTIBLE OFFERINGS IN 1987

Manager	Number of Issues Lead-Managed	Amount (millions)	% of Total
SMITH BARNEY, HARRIS UPHAM	3	\$750	39.9
Goldman, Sachs	2	225	12.0
Alex. Brown & Sons	2	200	10.6
Shearson Lehman Brothers	2	195	10.4
Salomon Brothers	1	160	8.5
First Boston	1	85	4.5
Donaldson, Lufkin & Jenrette	1	50	2.7
Dean Witter Reynolds	1	45	2.4
Morgan Stanley	1	45	2.4
Bear, Stearns	1	35	1.9
Kidder, Peabody	1	32	1.7
Industry Total	21	\$1,880	

**HEA 413-1669**  
 Subj. to Rule 6(e)  
 Confidentiality



## SMITH BARNEY

HEALTHSOUTH Rehabilitation Corporation  
Discussion of Financing Alternatives  
February 1987

## CONVERTIBLE DEBT OFFERINGS SINCE JANUARY 1, 1987

Offer Date	Issuer	Dollar Amount (Mils)	Coupon (%)	Maturity Date	Ratings Moody/S&P	Offer Price	Offer Yield (%)	Stock		
								Initial Conversion Price	Prior Premium	Yield Advance (%)
02/20/87	Ramtek	8.5	10.250	02/15/02	NR/NR	100.000	10.250	5.10	4.375	16.57
02/19/87	Sun Microsystems	100.0	5.250	02/15/12	NR/NR	100.000	5.250	39.60	30.75	28.78
02/19/87	Policy Management Systems	100.0	5.500	02/01/12	B1/B	100.000	5.500	36.25	28.75	26.09
02/13/87	Price	175.0	5.500	02/28/12	NR/NR	100.000	5.500	50.625	40.50	25.00
02/13/87	* Masco Corp.	225.0	5.250	02/15/12	A3/A	100.000	5.250	42.80	34.25	24.97
02/12/87	URS	50.0	6.500	02/15/12	B3/B-	100.000	6.500	22.75	18.50	22.97
02/11/87	Macmillan	125.0	5.500	02/15/12	Baa1/BBB+	100.000	5.500	69.00	54.125	27.48
02/11/87	Diceon Electronics	32.0	5.500	03/01/12	NR/NR	100.000	5.500	39.50	30.50	29.51
02/11/87	Casey's General Stores	35.0	6.250	05/01/12	Baa3/B	100.000	6.250	19.00	14.75	28.81
02/06/87	Paco Pharmaceutical Services	45.0	6.500	03/01/07	B2/B-	100.000	6.500	30.16	23.75	26.99
02/05/87	Federal	160.0	6.000	02/15/17	Baa1/BBB-	100.000	6.000	59.375	47.50	25.00
02/04/87	Kaman	85.0	6.000	03/15/12	Ba1/BBB-	100.000	6.000	37.375	29.50	26.69
01/29/87	* Masco Industries	175.0	6.000	12/15/11	Ba1/BB-	100.000	6.000	36.00	28.50	26.31
01/28/87	* Prime Computer	350.0	5.750	02/01/12	Baa2/BB+	100.000	5.750	27.75	22.375	24.02
01/27/87	Varco International	20.0	10.000	01/15/07	B3/CCC	100.000	10.000	2.50	2.75	-9.09
01/27/87	Hoore McCormack Resources	45.0	7.250	02/01/12	B1/B+	100.000	7.250	26.40	21.125	24.97
01/27/87	Computer Associates Internat'l	100.0	5.750	02/01/12	Ba3/B+	100.000	5.750	48.25	37.375	29.10
01/23/87	E'town	15.0	6.750	02/01/12	NR/A+	100.000	6.750	60.00	49.50	21.21
01/22/87	Northwest Natural Gas	15.0	7.250	03/01/12	NR/A-	100.000	7.250	29.85	25.00	19.40
01/21/87	Patrick Petroleum	7.0	8.000	01/21/97	B2/B-	100.000	Units	-	n.a.	n.a.
01/21/87	Cornerstone Financial	12.0	7.000	01/01/99	NR/NR	100.000	7.000	15.60	13.00	20.00

\* Smith Barney lead managed

HEA 413-1671  
Subj. to Rule 6(e)  
Confidentiality

SMITH BARNEY

HEALTHSOUTH Rehabilitation Corporation  
Discussion of Financing Alternatives  
February 1987

CONVERTIBLE DEBT OFFERINGS SINCE JANUARY 1, 1987 (Cont'd)

Offer Date	Issuer	Years To Break-Even	Years To Break-Even Even Equal Shares	Net Interest Cost %	Type of Call	Years of Protect.	First Call Price	Annual Sinking Fund Percent Retired Year	Annual Sinking Fund Percent Retired By Average Sinking Life
02/20/87	Rantek	1.39	1.39	11.225	2.0	SP	-	9.375	94 75.0 11.6
02/19/87	Sun Microsystems	4.26	4.26	5.378	2.0	SP	-	5.000	98 70.0 19.8
02/19/87	Policy Management Systems	3.76	3.76	5.670	2.0	SP	-	None	- - -
02/13/87	Price	3.64	3.64	5.575	2.0	SP	-	None	- - -
02/13/87	Masco Corp.	4.53	4.76	5.323	2.0	SP	-	5.000	98 70.0 19.8
02/12/87	URS	2.87	2.87	6.708	3.0	SP	104.55	5.000	98 70.0 19.8
02/11/87	Macmillan	3.92	3.92	5.584	2.0	NC	-	5.000	98 70.0 19.8
02/11/87	Diceon Electronics	4.14	4.14	5.708	2.0	SP	104.40	5.000	97 75.0 19.0
02/11/87	Casey's General Stores	3.58	3.58	6.274	2.2	SP	-	None	- - -
02/06/87	Paco Pharmaceutical Services	3.27	3.27	6.753	2.0	SP	105.20	7.500	97 75.0 15.9
02/05/87	Federal	4.98	5.69	6.091	3.0	SP	104.20	5.000	98 - 20.5
02/04/87	Kaman	4.57	4.97	6.136	3.1	SP	104.20	5.000	97 75.0 19.1
01/29/87	Masco Industries	3.47	3.47	6.181	2.9	SP	104.20	5.000	97 70.0 19.4
01/28/87	Prime Computer	3.37	3.37	5.836	2.0	SP	104.60	5.000	97 75.0 19.0
01/27/87	Varco International	-	-	10.696	5.0	SP	105.00	7.500	97 75.0 15.9
01/27/87	Moore McCormack Resources	3.78	4.17	7.514	2.0	NC	105.80	5.000	97 75.0 19.0
01/27/87	Computer Associates Internat'l	3.92	3.92	5.885	2.0	NC	-	None	- - -
01/23/87	E'cow	8.40	16.00	7.139	1.0	NC	105.00	None	- - -
01/22/87	Northwest Natural Gas	8.03	16.09	7.297	1.1	NC	106.00	None	- - -
01/21/87	Patrick Petroleum	-	-	9.326	2.0	NC	-	None	- - -
01/21/87	Cornerstone Financial	2.38	2.38	7.449	4.0	NC	-	None	- - -

\* Smith Barney lead managed

HEA 413-1672  
Subj. to Rule 6(e)  
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5

**HEA 413-1673**  
**Subj. to Rule 6(e)**  
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